

(Draft – Awaiting Formal Approval)

**MINUTES OF THE
INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS
SUBCOMMITTEE**

Room 445 State Capitol Building
February 5, 2015

Members Present: Sen. Wayne A. Harper, Co-Chair
Rep. Gage Froerer, Co-Chair
Rep. Craig Hall, House Vice Chair
Sen. Lyle W. Hillyard
Sen. David P. Hinkins
Rep. John Knotwell
Sen. Peter C. Knudson
Sen. Karen Mayne
Sen. Kevin T. Van Tassell
Rep. Jacob L. Anderegg
Rep. Brad King
Rep. Justin J. Miller
Rep. Douglas V. Sagers
Rep. Scott D. Sandall
Rep. R. Curt Webb

Members Absent: Sen. J. Stuart Adams

Staff Present: Mr. Steven Allred, Deputy Director
Mr. Brian Wikle, Fiscal Analyst
Dr. Thomas Young, Senior Economist
Ms. Cami Deavila, Secretary

Note: A copy of related materials and an audio recording of the meeting can be found at www.le.utah.gov.

1. Call to Order

Co-Chair Froerer called the meeting to order at 8:10 a.m.

2. Debt Service

Brian Wikle, Fiscal Analyst, Office of the Legislative Fiscal Analyst, reviewed the debt service issue brief showing \$2.8 billion in outstanding General Obligation Bond debt. The Department of Administrative Services requests that \$1.2 million be revoked of the \$63.7 million in authorized bonds that have not been issued. Three bonds will be retired on July 1, 2015. The State has a AAA bond rating allowing the State to borrow at the best interest rates. The State participated in the Build America Bond program. The Constitutional debt limit was calculated at 1.5 percent of the value of State taxable property. There was an additional \$1.29 billion in bonding capacity before hitting the Constitutional debt limit. The statutory debt limit would allow the State to incur another \$1.17 billion.

Co-chair Harper added the State's debt would be at 62 percent of the constitutional limit next year and the State was doing a good job paying off the debt.

Mr. Wikle showed existing debts would be fully retired by 2028 if no new debt were issued. The debt per capita was \$961. The debt service ratio was 7.5 percent, second highest among AAA rated states. There was concern the ratio was high compared to other states. The Base Budget had \$445 million of debt service. To fully service the debt an additional \$23 million would need to be built into the budget, totaling \$468 million.

Rep. Sagers observed that the debt was high due to road construction projects, which helped fuel the economy during the recession.

Co-chair Froerer asked about the inflation factor built into the model in terms of the increase in fair market value of State property. Mr. Wikle answered growth rates in the fair market value were projected as 5.82 percent from 2015 to 2016, 4.5 percent from 2016 to 2017, and thereafter at 3 percent.

3. Capital Budget

Steven Allred, Deputy Director, Office of the Legislative Fiscal Analyst, presented the capital base budget of \$47 million all located in the Capital Improvements line item. The other line items do not have a base budget because they are one-time money. The ten year history of capital funding showed appropriations for Capital Improvements have doubled. Mr. Allred reviewed the Capital Improvements statutory requirements. The Legislature made an exemption from requirements for 2009-2014. FY15 had \$100 million appropriated, \$46.8 million ongoing, and \$53.4 million one-time funds. The requirement for FY16 was \$111.5 million. The Legislature would need to come up with an additional \$65 million to meet statutory requirements. The replacement value in FY15 was \$9.9 billion and \$11.1 billion in FY16. The increase was due to new construction and improvements in how the value of buildings were calculated.

Sen. Mayne asked if there was oversight to ensure infrastructure improvements were taking place with the funds provided to avoid a catastrophe. Mr. Allred stated the Board of Regents and the Building Board had oversight.

Mr. Allred stated there was \$5.7 million set aside with DFCM for statewide projects and project administration. The budget effectiveness review showed the two percent soft target would be \$935,500 in an ongoing reduction. To mitigate the reduction, there could be a reallocation of \$1.1 million from the Finance Mandated Studies line item to the Capital Improvements line item. Mr. Allred reviewed Capital Development statutory requirements. Capital Development was not intended to be a queue; State funded projects must stand on their own merit. Other funded Capital Development projects could not be authorized until O&M and Capital Improvement funding was appropriated. Mr. Allred reviewed the Board of Regents' and the Building Board's Capital Development prioritization process and a comparison of project ranking results. He also reviewed the Building Board's top 25 projects and Capital Development project requests with O&M notes, other funded projects, property acquisition, and land banking requests. The Higher Ed O&M schedule received an adjustment according to CPI. Lab space O&M was more

expensive and DFCM space was cheaper than Higher Ed. There was an unwritten policy to fund O&M at the same time as State funded buildings. Statute requires O&M to be funded at the same time as other funded buildings. There was an issue with rates versus actual costs when funding O&M on new buildings versus the funding needed for old buildings.

Rep. Sagers asked if O&M funding for new buildings was accrued. Mr. Allred stated the money was taken back out on a one-time basis until the building was completed.

Mr. Allred continued with the Capital Projects Fund which was statutorily non-lapsing. The Project Reserve Fund had \$10.3 million and the Contingency Reserve Fund had \$10.1 million. The Capitol Project Fund pays \$1.8 million for DFCM administration and \$1.2 million for the Building Board program. There were intent language requests to transfer \$960,700 back to the Department of Corrections and that \$993,600 from the Project Reserve Fund be used for purchasing the new prison site.

Dave Buhler, Commissioner, Higher Ed provided an overview of the Capital Development prioritization process, how online courses and degrees affect building needs, projected enrollment, and capacity for STEM. The prioritization results focused on STEM building projects.

Co-chair Froerer asked if there were metrics to show if building utilization continued on the same plane with enrollment increases. Mr. Buhler stated the fastest growing campuses operate six days a week from 7 am to 10 pm. They are trying to increase utilization during the summer. Co-chair Froerer asked if the present O&M structure needed to be changed. Mr. Buhler stated their estimate was that institutions were spending about \$27 million more a year than the Legislature appropriated.

Chip Nelson, Board Member, State Building Board, stated \$1 billion in requests for Capital Development, Capital Improvement, and non-State funded buildings had been received. Changes the Building Board made included revamping the scoring spreadsheet, holding regularly scheduled business meetings on top of the monthly meeting, and the prioritization process for Capital Improvements.

Jeff Reddoor, State Building Board, reviewed the prioritization process for Capital Improvements including implementation of a score sheet that looked at projects on their own merit, the scope of the project, and a proportional aspect of projects. A condition assessment was completed that identified building deficiencies and categorized them by criticality.

Mr. Nelson stated the new prioritization process was working much better than the old system.

Co-chair Froerer asked if there was a model in place for tracking how money requested for Capital Improvement projects was utilized. Mr. Reddoor stated there had been improvements in identifying deficiencies. There are facility auditors that report to the Board the level of compliance of facility maintenance the State's inventory was in. The condition assessment team reported to agencies the identified deficiencies. The Board could then compare the agency requests to the identified deficiencies. Mr. Nelson spoke to the auditing process.

David Tanner, Board Member, State Building Board, spoke to how O&M was allocated. The formula needed continued review. Allocations for O&M needed to be separated from the administrative budgets allowing for greater accountability.

Mr. Nelson added the Building Board was scrutinizing non-State funded projects to a greater degree. There was a new template that gave more information for non-State funded projects. It was critical to make sure the cost of O&M was not more than the cost of the building. The Building Board's top five priorities included the Snow College Science Building, Dixie Applied Technology College (DATC) permanent campus, Huntsman Cancer Institute, the Unified State Lab, and the Crocker Science Building.

Co-chair Froerer asked if the DATC request included purchasing more land at the airport. Mr. Nelson stated DATC had plenty of land at the airport.

Rep. Hall asked if there was analysis on how many students would be helped with the Dixie Campus versus other projects. Kelle Stephens, President, Dixie Applied Technology College, answered enrollment was up 57 percent compared to last year, serving just over 7,000 students. The new building included 17,000 square feet for growth, and they would be using most of that space once they open.

Co-chair Harper asked if the DATC existing facilities would be vacated and consolidated into the new building. Ms. Stephens stated the leased facilities would not have leases renewed.

Co-chair Harper asked if the \$682,000 proposed O&M for the Crocker Science Building was in addition to the O&M for the existing building. Mr. Reddoor stated the proposed O&M was for the increase only.

Co-chair Harper asked if the alternate funding of \$80 million included \$8 million the State gave last year. Mr. Reddoor answered the State had given a total of \$10.5 million. The \$9.5 million request completed a \$20 million agreement with the State. The \$80 million came from philanthropists. Co-chair Harper asked why the State should pay the \$1.8 million O&M a year. Susan Sheehan, Executive Director, Huntsman Cancer Foundation, stated they have expanded four times since 1999 and have not asked the State for additional O&M since receiving the original O&M of \$1.2 million. The new space would be for pure scientific research which generated no revenue. The project would be a cost neutral request because of jobs and tax revenue created from the expansion. Co-chair Harper asked for clarification that it would be a State building. Ms. Sheehan stated all Huntsman Cancer Institute buildings were State owned.

Co-chair Harper asked what information became available that rearranged the priorities so dramatically from what Higher Ed had versus what the Building Board came up with, specifically the Salt Lake Community College (SLCC) project. Mr. Nelson stated the Regents ranking was only one factor in the score sheet, they still had to consider need. Mr. Tanner added the Building Board looked at the entire State, Regents only looked at Higher Ed. Mr. Reddoor clarified that the SLCC project was not a single building request, but several requests seemed very large. Mr. Nelson stated special consideration was given to projects that had donor money.

Rep. Sagers asked if a decision had been made to move the State Fair Park or leave it at its current location and if making improvements on the property was just a band aid. Mr. Nelson answered that a decision needed to be made on moving the State Fair Park before moving forward. The fair park was a valuable piece of property for the State. Mr. Reddoor added the State Fair Park request was closer to \$7 million. A condition analysis was completed on existing buildings and \$2.6 million in immediate deficiencies were identified. Because a decision was still needed on moving the Fair Park, The Building Board took the most critical deficiencies and funded \$1.7 million. Rep. Sagers stated support for the Utah State Fair.

Co-chair Froerer applauded the Building Board for a great job in looking at State buildings.

4. Consideration of Intent Language

MOTION: Co-chair Harper moved that The Legislature intends that the DFCM, in consultation with the State Fair Board, use appropriated funds to submit a request for information for the development of land at the State Fairpark, collect the data received, and report their findings to the State Building Board. The division may expend funds for consulting services, if necessary, to assist in preparing the request for information (RFI) and analyzing the information.

Sen. Van Tassell asked how long the RFI process would take. Co-chair Harper stated an RFI would normally take 90-120 days. Sen. Van Tassell stated he would vote against the motion because Rural Caucus supported leaving the State Fair Park at the current location and in the current condition. Co-chair Harper stated the intent language does not move the fair park but helps with the discussion on leases with certain portions of the fair park, specifically the White Ball Field.

Rep. Anderegg asked for clarification that the intent language authorizes the State Fair Park to go ahead with the 40 year lease. Co-chair Harper answered intent language would only allow an RFI.

Rep. Miller asked if allowing an RFI would jeopardize the current lease negotiations and added he would vote against the motion.

Rep. Schultz stated support for sending out an RFI.

Rep. Sandall asked if the timing of the new lease would help or hinder when the overall lease of the fair park needed to be signed. Co-chair Harper stated the RFI would accelerate the need to make a decision on the fair park lease to keep it at the current location.

Rep. Sagers stated the importance of the cost benefit of the entire project and not to make a decision without all the facts.

Sen. Van Tassell stated it was early in the session for intent language and more discussion was needed.

Co-chair Harper asked what the time line would be for an RFI. Bruce Whittington, Director, Department of Facilities and Construction Management, stated an RFI could be completed in 30 days but an appropriate response would need 60-90 days.

SUBSTITUTE MOTION: Rep. Miller moved to table the intent language.

Co-chair added that a two-thirds vote of the committee would be required to readdress the intent language.

Rep. Miller withdrew the substitute motion.

MOTION: Rep. Miller moved to continue on with the next agenda item. The motion passed unanimously with Sens. Adams, Hillyard, Hinkins, Knudson, and Rep. Webb absent for the vote.

5. Prioritization of Budget Effectiveness Review List

Co-chair Froerer explained the prioritization recommendations of the budget effectiveness review list to achieve a two percent soft target.

Mr. Wikle presented the targeted reductions of just over \$3.1 million. The rank order starting at the bottom and working to the top included DTS ongoing appropriations, AGRC, DAS purchasing training, DAS data processing, a DAS database administrator, DAS Judicial Conduct Commission travel, DAS eRules maintenance, DAS Child Welfare Parental Defense, and UDOT project cost forecasting/revenue. One-time reallocations included moving \$1.1 million for studies to Capital Improvements, a DAS reallocation of \$400,000 non-lapsing balance, and \$158,500 in interest from repeal of the Transportation Litigation Account for Highway Projects.

Co-chair Harper added Capital Improvement money was removed from the list but the committee could add it back. If the Transportation Investment Funds were looked at for the two percent soft target, a reduction in projects would occur.

Sen. Mayne asked for clarification that the recommendations were from the departments and not from the Chairs. Co-chair Froerer stated the departments gave recommendations and the Chairs made the prioritizations. Mr. Wikle stated the recommendations came from the agencies. Sen. Mayne asked if Judicial Conduct Commission funding was held whole except for travel. Mr. Wikle stated that was correct. Sen. Mayne asked if cuts to DTS would affect their ability to protect the State. Ken Peterson, Chief Operating Officer, Department of Technology Services, stated the first cut would eliminate a newspaper subscription. The second cut would slow down requests to the mapping department. Rich Amon, Deputy Director, Department of Administrative Services, stated the technology cuts to DAS affected operations not security.

Rep. Sagers asked if a cost benefit analysis had been completed in identifying the cuts. Mr. Amon stated cuts were challenging and hampered innovation but did not hurt key requirements. Cuts would affect, but not destroy, the department.

MOTION: Sen. Van Tassell moved to adopt two percent reductions as outlined in the Budget

Effectiveness Review Prioritized Ongoing Options and to reallocate options on page two.

Rep. Sagers asked if the motion included money from TIF. Co-chair Froerer stated TIF money was taken from the litigation settlement.

The motion passed unanimously with Sens. Adams, Hillyard and Knudson absent for the vote.

6. Vote on HB 6 – Infrastructure and General Government Base Budget

MOTION: Sen. Van Tassell moved to move out HB 6 with a favorable recommendation. The motion passed unanimously with Sens. Adams, Hillyard, Hinkins, Knudson, and Rep. Webb absent for the vote.

7. Other Business/ Adjourn

MOTION: Rep. King moved to approve minutes from the October 23, 2014, January 28, 2015, and January 30, 2015 meetings. The motion passed unanimously with Sens. Adams, Hillyard, Hinkins, Knudson, and Rep. Webb absent for the vote.

MOTION: Rep. Miller moved to adjourn.

Co-chair Froerer adjourned the meeting 10:20 at a.m.

Sen. Wayne A. Harper, Co-Chair

Rep. Gage Froerer, Co-Chair